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Government Benefits, Taxes and Household Income, Australia

This study examines the effects of taxation and government expenditure on the distribution of income among private households in Australia

Reference period 2015-16 financial year

Released 20/06/2018

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What is a fiscal incidence study?

Introduction

This publication presents results from a Fiscal Incidence Study (FIS) undertaken to show the effects of government benefits and taxes on the distribution of income among private households in Australia in 2015-16. Previous studies were conducted in 1984, 1988-89, 1993-94, 1998-99, 2003-04 and 2009-10.

Household income is increased directly by the Australian government through social assistance benefits in the form of cash payments, such as the Age Pension and Family Tax Benefit, and indirectly by government expenditures such as those on health and education. On the other hand, household income is reduced by taxes on personal income (direct taxes) and by taxes on production (indirect taxes) passed on in the prices households pay for goods and services. This study shows the effect on household incomes after taking both government benefits and taxes into account.

The FIS excludes government taxes and expenditure that do not relate directly to particular types of households or household expenditure, such as government revenue from corporate taxes and spending on defence, public order and safety, transport and communications.

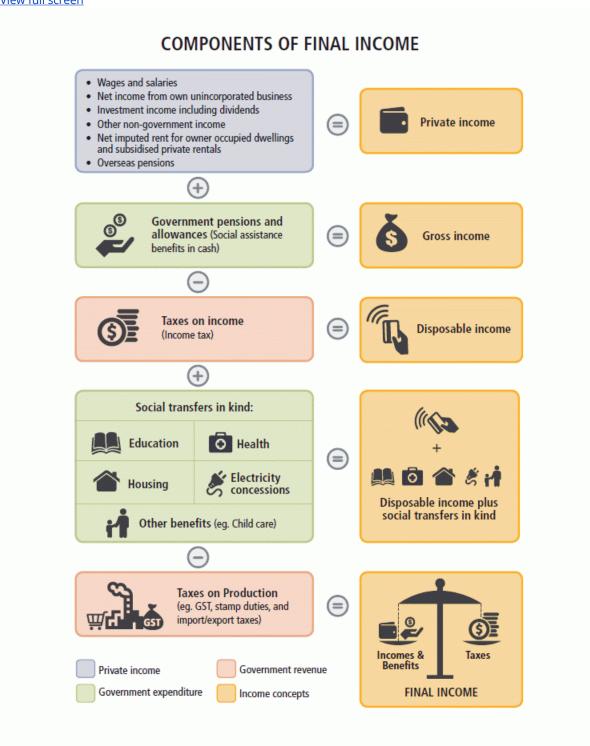
The three major data sources used in the FIS were the 2015–16 ABS Household Expenditure Survey (HES), ABS Government Finance Statistics (GFS), and Input-Output tables from the Australian System of National Accounts (ASNA).

The concepts and definitions relating to all measures of income, government benefits and taxes are described in the following section.

Income concepts and components

The following diagram illustrates the different components of final income:

View full screen



These components and their concepts are described further below.

Private income

The most restricted concept of income used in the FIS is referred to as private income, while the most extensive is final income. Private income is all current receipts, whether monetary or in kind. Private income includes wages and salaries, profit/loss from own unincorporated business, net investment income, private transfers and overseas pensions. Australian government benefits are not included.

It also includes net imputed rent for owner occupied dwellings and for subsidised private rentals to allow for more meaningful comparisons of the income circumstances of people living in different tenure types.

Social assistance benefits in cash

Cash payments to persons from general government without any requirement to provide goods and services in return. Included are pensions and allowances received by aged, disabled, unemployed and sick persons, families and children, veterans or their survivors, and study allowances for students. Family Tax Benefit, Newborn supplement or Newborn Upfront payment and Child Disability Assistance Payment paid to recipients of Carer Allowance are also included as social assistance benefits in cash. Payments are limited to those collected in the HES and exclude some transfers e.g. support from the National Disability Insurance Scheme.

Gross income

Gross income is the sum of private income and social assistance benefits in cash.

Disposable income

Disposable income is derived by subtracting estimates of taxes on personal income from gross income.

Disposable income plus social transfers in kind

Social transfers in kind (STIK) consist of goods and services provided free or at subsidised prices by the governmen In the FIS, these are restricted to those arising from the provision of education, health, housing, social security and welfare services, and electricity concessions and rebates. STIK includes reimbursements of approved expenditures such as the Medicare rebate, the Private Health Insurance Rebate, the Child Care Benefit and the Child Care Rebate Support from the National Disability Insurance Scheme has not been included due to limitations in HES data that would enable accurate allocation of these transfers (such as disability information for children aged under 15 years in the household). The cost of administering the provision of social assistance benefits in cash is included.

The value of government social transfers in kind is added to disposable income to derive disposable income plus STIK.

Taxes on production

Taxes on production and imports consist of taxes payable on goods and services when they are produced, delivered, sold, transferred or otherwise disposed of by their producers plus taxes and duties on imports that become payable when goods enter the economic territory by crossing the frontier or when services are delivered to resident units by non-resident units; they also include other taxes on production, which consist mainly of taxes on the ownership or use of land, buildings or other assets used in production or on the labour employed, or compensation of employees paid.

Disposable income

The value of government social transfers in kind for education, health, housing, social security and welfare, and electricity concessions and rebates (indirect benefits) is added to disposable income to derive disposable income plus social transfers in kind.

Final income

Final income is equal to disposable income plus social transfers in kind less taxes on production.

Key findings

The results of the Fiscal Incidence Study outlined in this publication show the effects of government benefits and taxes on the distribution of income among private households in Australia. Overall, the study found that in 2015-16 households received, on average, \$76 more per week in total benefits (cash and in-kind) than they paid in taxes (both on income and production, including the GST). This is similar to 2009-10 when the difference (in 2015-16 dollars) was, on average, \$99 per week.

Between 2009-10 and 2015-16 the study found that equivalised household incomes, following adjustment for benefits and taxes, rose by 7% in real terms.

Table 1 - Components of final income(a), Australia, 2003-04 to 2015-16

				Change between 2009-10 and 2015-16		
Components of final income (\$ per week)	2003-04(b)	2009-10	2015-16	\$	%	
Household Income component						
Private income (excluding net imputed rent)	1,389	1,724	1,871	147	8.5%	
Net imputed rent	112	142	157	15	10.4%	
Total Private Income	1,501	1,866	2,028	162	8.7%	
Social assistance benefits in cash	185	203	215	12	6.1%	
Gross income	1,686	2,069	2,243	174	8.4%	
Taxes on income	293	297	382	85	28.5%	
Disposable income	1,393	1,772	1,863	91	5.1%	
Social transfers in kind	323	408	444	36	8.9%	
Disposable income plus social transfers in kind	1,716	2,180	2,307	127	5.8%	
Taxes on production(c)	199	214	200	-14	-6.7%	×
Final income	1,517	1,965	2,107	142	7.2%	ဗ
Total benefits allocated	508	610	659	49	8.0%	Feedback
Total taxes allocated	492	512	583	71	13.9%	e e
Net benefits allocated	16	99	76	(d)-23	-23.1%	ய
Equivalised household income components(e)						
Private income (including net imputed rent)	900	1,104	1,214	110	10.0%	U
Gross income	1,008	1,220	1,332	112	9.2%	
Disposable income	831	1,041	1,095	54	5.2%	
Disposable income plus social transfers in kind	1,035	1,293	1,366	73	5.6%	
Final income	916	1,167	1,249	82	7.0%	

- a. In 2015-16 dollars, adjusted using changes in the Consumer Price Index
- b. Estimates presented for 2003-04 are not directly comparable with future estimates due to improvements made to income measurement applied in more recent collections. Estimates for 2003-04 have been recompiled to reflect the revised measure of income, however not all components were available.
- c. Revisions to the Australian System of National Accounts are not reflected in Input-Output tables used for 2003-04 and 2009-10 estimates of taxes on production, which may affect comparisons over time. For more information, see paragraph 3 of the Methodology. d. The difference between periods is not statistically significant.
- e. Indicators are adjusted by equivalence factors to standardise them for variations in household size and composition, while taking into account the economies of scale that arise from the sharing of dwellings.

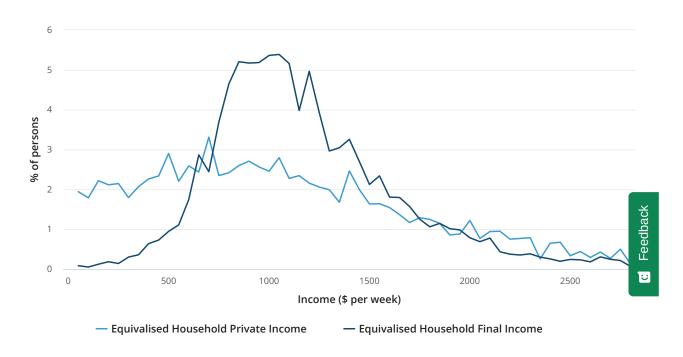
Income redistribution and inequality

Income redistribution

In 2015-16, households received, on average, \$76 more in total government benefits (social assistance benefits in cash and social transfers in kind) than they paid in taxes. This resulted in an average final income of \$2,107 per week, compared to average private income of \$1,871 per week.

The effects of different benefits and taxes vary with the level of household income. Graph 1 presents the distribution of private and final incomes, adjusted to take into account household size and composition. Once the impact of government benefits and taxes are been taken into consideration, more people in households have equivalised incomes between \$500 and \$1,500 per week, and fewer people in households having incomes outside this range. The net effect of government benefits and taxes is to increase the average income of households in the lower income groups, and decrease the average income of households in the higher income groups.

Graph 1 - Distribution of equivalised household private and final income(a), 2015-16

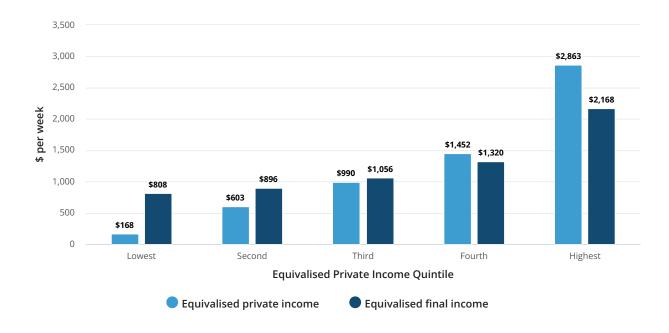


a. Persons with an income between \$25 and \$2,775 are shown in \$50 ranges on the graph.

The redistribution of income from high to low income households can also be seen through the analysis of equivalised private income quintile groups (Graph 2, see https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6503.0~2015-16~Main%20Features~Summary%20indicators%20of%20income%20and%20wealth%20 distribution~5) for more information on income distributional measures).

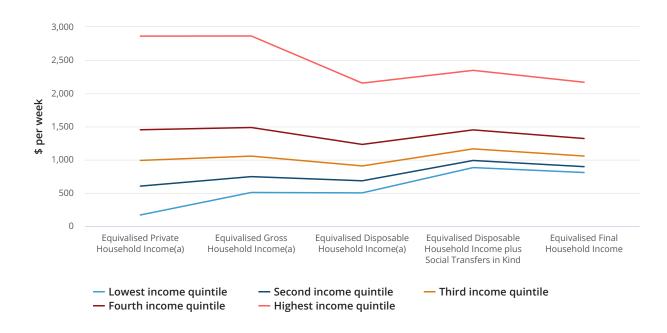
The net effect of benefits and taxes was to increase the average income of households in the three lower quintiles and decrease the average income of households in the two higher quintiles. In the lowest quintile, average equivalised private income was \$168 per week and average equivalised final income was \$808 per week. In the highest quintile, the average equivalised private income was \$2,863 per week and average equivalised final income was \$2,168 per week.

Graph 2 - Equivalised private and final income, by equivalised private income quintile, 2015-16



The various income measures shown in Graph 3 below, demonstrate the relative impact of the benefits and tax system on households in each income quintile (for an explanation of each income measure see the What is a Fiscal Incidence Study? section). For example, the difference between the private and gross income measures reflect the impact of government pensions and allowances on households' private income. The lowest equivalised private income quintile received the highest amount of social assistance benefits in cash (\$517 per week, on average) with the highest income quintile receiving the least (\$28 per week). The differences between gross income measures and the disposable income measure reflect the impact of taxes on income. The highest quintile paid the most income tax (\$1,172 per week, on average), decreasing their gross income and bringing it closer to the disposable incomes of other household groups.

Graph 3 - Average equivalised private income to final income, by equivalised private income quintiles, 2015-16



a. Includes imputed rent net of social transfers in kind for housing.

Within the lowest equivalised private income quintile, the share of income received by households increased from 3% using the equivalised private income measure to 13% using the equivalised final income measure. For households in the highest quintile, the income share decreased from 47% for equivalised private income to 35% for equivalised final income.

Table 1 - Distribution of household income, benefits and taxes, by equivalised private income quintile

	EQUIVALISED PRIVATE INCOME QUINTILE								
	Lowest quintile	Second quintile	Third quintile	Fourth quintile	Highest quintile	All households			
	%	%	%	%	%	%			
Equivalised private income	3	10	16	24	47	100			
Equivalised Benefits									
Social assistance benefits in cash	57	24	11	6	3	100			
Social transfers in kind	28	23	19	16	14	100			
Total	37	23	17	13	11	100			
Equivalised Taxes									
Taxes on income	1	5	13	22	60	100			
Taxes on production	13	16	19	22	31	100			
Total	5	9	15	22	50	100			
Equivalised final income	13	14	17	21	35	100			

Both social assistance benefits in cash and social transfers in kind decreased as levels of household income rose. The people in households in the lowest equivalised private income quintile received 57% of all social benefits in cash and 28% of social transfers in kind (after adjustment of benefits for household size and composition). By comparison, the

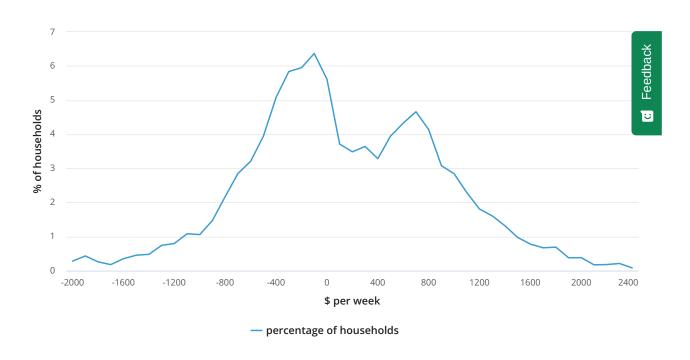
people in households in the highest quintile received 3% of social assistance benefits in cash and 14% of social transfers in kind.

The payment of taxes on income and, to a lesser extent taxes on production, increased with income. Households in the lowest quintile paid 1% of total taxes on income while households in the highest quintile paid 60% (also after adjustment of taxes for household size and composition). For taxes on production (for example GST), households in the lowest quintile paid 13% while households in the highest quintile paid 31%.

Net benefits

Net benefits represent the total amount a household either pays or receives after the allocation of benefits and taxes to private income. On average, Australian households received \$76 more in benefits than they paid in taxes. Around 27% of households paid between \$50 and \$550 more per week in taxes than benefits received. By comparison, 18% of households received benefits ranging between \$50 and \$550. Around 6% of households had a net benefit close to \$0 per week (that is, a net benefit ranging between minus \$50 and \$50 per week).

Graph 4 - Distribution of net benefits to households(a), 2015-16



a. Income quintiles are based on equivalised private household income.

Inequality

The distribution of income across households becomes more equal once the impacts of government benefits and taxation have been taken into consideration. One measure of this is the Gini coefficient which is an internationally accepted measure of inequality, with values ranging between zero and one, where a value closer to one implies greater inequality. In 2015-16, the Gini coefficient reduced from 0.442 for equivalised private household income to 0.249 for equivalised final household once the impact of benefits and taxes is taken into consideration.

There has been no change in inequality, either before or after the allocation of government benefits and taxes between 2009-10 and 2015-16.

Table 2 - Gini coefficient by equivalised income(a)

	2003-04	2009-10	2015-16	Change from 2009-10 to 2015-16
	no.	no.	no.	%
Equivalised private household income	0.434	0.446	0.442	-0.9%
Equivalised gross household income	0.335	0.357	0.361	1.1%
Equivalised disposable household income	0.292	0.320	0.316	-1.3%
Equivalised disposable household income including social transfers in kind	0.217	0.243	0.241	-0.8%
Equivalised final household income	0.228	0.252	0.249	-1.2%

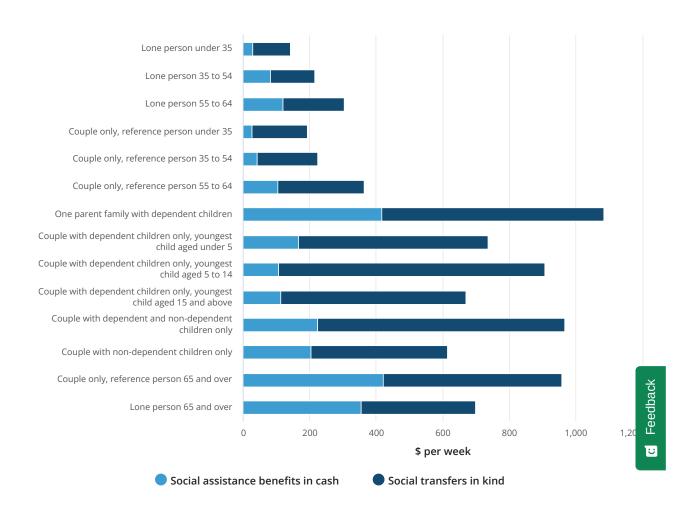
a. Net imputed rent for owner occupied dwellings and subsidised housing is included in all estimates of income. Government benefits for housing are allocated as part of social transfers in kind.

Differences between household groups

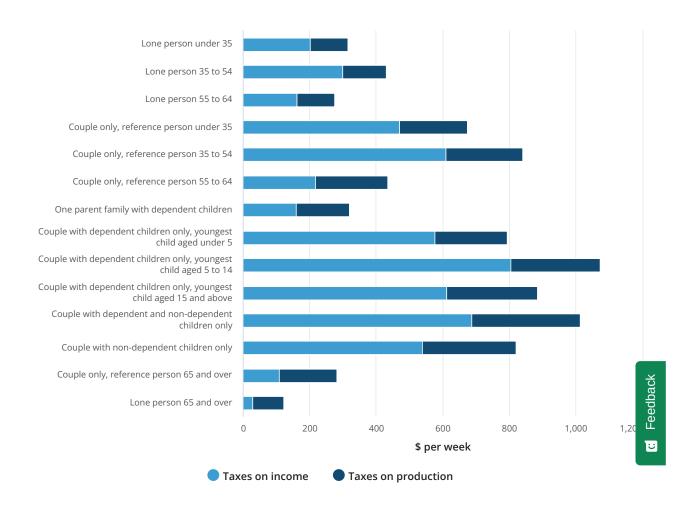
The system of government benefits and taxes in Australia has been designed to assist those in the community who are most in need of financial support. The allocation of benefits and taxes differs between households, reflecting that characteristics such as household composition, life cycle stages, household size and income have an impact on these allocations.

Graphs 1 and 2 show the average weekly benefits received (social assistance benefits in cash and social transfers in kind) and total taxes (taxes on income and taxes on production) paid by selected household groups.

Graph 1 - Average weekly benefits, selected households groups, 2015-16

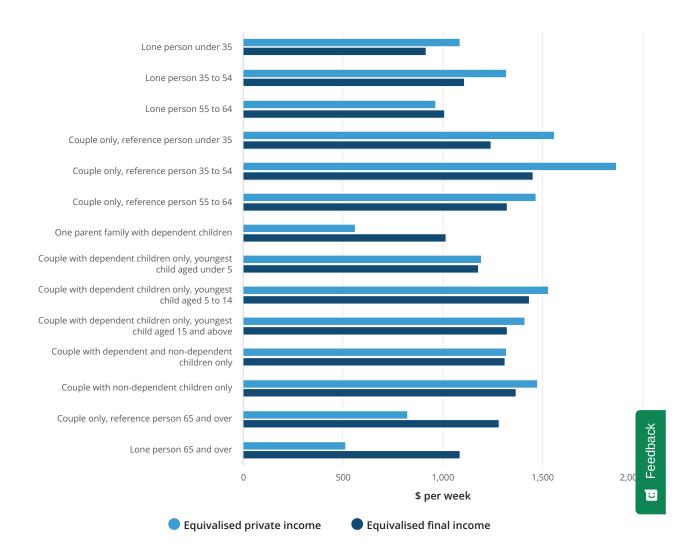


Graph 2 - Average weekly taxes, selected household groups, 2015-16



Graph 3 gives an indication of the extent of the redistributive impact between different household groups in the population, by comparing equivalised private income and equivalised final income for the same household groups. The measures are equivalised to take into account the differing size and composition of households, providing a better indication of the effect of government benefits and taxes on the relative economic wellbeing of these households.

Graph 3 - Equivalised private and final incomes, selected household groups, 2015-16



Lone person households, under 65 years

There were 1.3 million lone person households aged under 65 years in this study (0.3 million under 35 years, and 1.0 million 35 to 65 years). In these households, average social assistance benefits in cash tend to be low. This relates to the absence of children (and therefore family support payments) and the high employment levels in these households. Social transfers in kind also tend to be low on average in these households because the household size is small, the members do not usually receive school benefits and, due to their age, use of health services is lower. In the under 35 and 35-54 age ranges, average taxes paid exceeded benefits received by \$171 and \$204 per week respectively. However, in the 55-64 year age range average benefits received were similar to taxes paid.

Couple only households, reference person under 65 years

For the 1.4 million couple only households, where the reference person was under 65 years, households paid, on average, more in total taxes than they received in total benefits. For couples where the reference person was aged between 35 and 54 years, taxes exceeded benefits by \$618 per week, while for younger couples, taxes exceeded benefits by \$480 per week. For couples where the reference person was aged 55 to 64 years, taxes exceeded benefits by \$206 per week due to this group receiving higher benefits related to health services and disability and carer payments.

One parent households with dependent children

The 512,800 one parent households with dependent children had higher net benefits (total benefits less total taxes) than any of the other selected household types included in this publication. Households in this group received very high levels of social assistance benefits in cash, consisting mainly of family support payments. The average value of social assistance benefits in cash for this group was \$417 per week compared to \$215 per week for all households. Around half of these households received most of their income from wages and salaries, while two in every five had government pensions and allowances as their main source of income. Social transfers in kind were also relatively high (\$668 per week) because of high use of education services, health services and social security and welfare services.

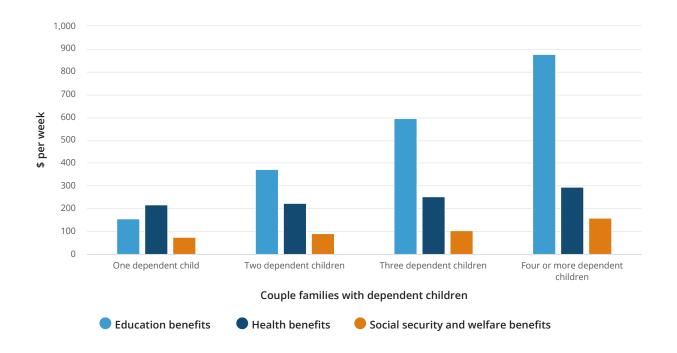
Taxes on both income and production (including GST) were low, since both income and expenditure were low. Total taxes averaged \$319 per week of which around half (\$159 per week) were taxes paid on income.

The average weekly equivalised private income of one parent households with dependent children was about 42% of the average weekly equivalised private income of couple households with dependent children. However due to higher net benefits, the average equivalised final income of this group was a much higher proportion of the average for both couple households with dependent children (78%) and for all households (81%).

Couple households with dependent children

Couple with dependent children households (2.5 million households) received, on average, higher levels of social assistance benefits in cash and social transfers in kind than couple only households where the reference person was under 65 years of age. Social assistance benefits were higher because the households tend to be eligible for family support payments. Social transfers in kind were also higher. These households received greater education and health benefits due to the presence of children in the household using these services, particularly for couples with three or more dependents, as well as child care assistance and other social security and welfare benefits.

Graph 4 - Selected social transfers in kind, couple families with dependent children



However, as the average private income of these households was relatively high at \$2,873 per week, they also, on average, paid more taxes on income and with higher expenditures, paid more taxes on production than the average for all households. After taking account of household size and composition, the equivalised private and final household income of couples with dependent children were very similar (\$1,344 and \$1,296 per week, respectively just slightly higher than the average for all households.

Couple households with non-dependent children only

Households consisting of couples with non-dependent children only (515,900 households), received slightly more social assistance benefits in cash than couple households with dependent children (\$205 and \$155 respectively). In these households there were, on average, 2.3 employed persons and wages and salaries were the main source of income for 76% these households. Social transfers in kind were lower than couple households with dependent children because fewer household members used education services. Levels of income and expenditure were both higher, resulting in higher taxes on income and taxes on production. Their equivalised private household income averaged \$1,474 per week while their average equivalised final household income was not significantly different at \$1,366 per week.

Lone persons and couple only households, reference person 65 years and over

There were 1.8 million lone person and couple only households aged 65 years and over in 2015-16. In these households, average weekly equivalised private income was \$826 for couples where the reference person was 65 years and over, and \$513 for lone persons 65 years and over. However, these households received average weekly net benefits (total benefits less total taxes) of \$684 and \$575, respectively, while taxes paid were relatively low.

Therefore, while equivalised private income was amongst the lowest of any household group, their equivalised final income was closer to the population average. For couples where the reference person was 65 years or over, equivalised final income was \$1,281 per week, and for lone persons \$1,088 per week. These were 103% and 87% respectively of the average equivalised final income of all households.

States and territories

The allocation of government benefits and taxes varied across states and territories.

Estimates of social transfers in kind by state and territories may not be entirely accurate, since for some components the allocation did not take into account the varying expenditure by state and territory governments, or some differences related to the survey scope exclusions (e.g. very remote areas). In addition, there may be some inconsistencies in the classification of government expenditure by state governments in the source data, which could impact on comparability.

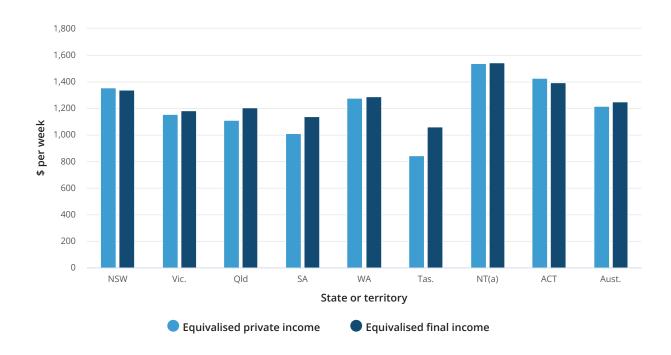
In this study, households in the Northern Territory received the highest average total benefits and paid the highest total taxes. Taxes paid were equivalent to benefits received; however the allocation of benefits and taxes is limited due the exclusion of very remote areas from the survey collection scope (these areas include about 22% of the NT population).

By comparison, households in Tasmania paid the lowest total taxes, in part reflecting the state's older demographic. Benefits received exceeded taxes paid by \$360 per week.

Average income also varied between states and territories. Average private income was highest in the NT (excluding very remote areas). Average equivalised private income in the NT was 27% higher than the average for Australia, while equivalised final income was 24% higher than the national average. In Tasmania, which had the lowest average income, equivalised private income was 31% below the Australian average. After benefits and taxes, Tasmanian equivalised final income was 15% below the national average.

The average equivalised final income of NSW, NT and ACT households were higher than the national average, while Victoria, Queensland, SA and Tasmania were lower than the national average. Western Australia's equivalised final income was similar to the national average.

Graph 1 - Equivalised income levels, states and territories



a. Households in areas defined as very remote were excluded, accounting for about 22% of the population in the NT.

History of changes

Show all

26/07/2018 - This release includes replacement content due to small transposing error in Tables 1.2 and 1.3 in 'Social benefits assistance in cash' item - 2003-04 only.

Data downloads

Household income and income distribution, Australia

Correction to minor transposing errors in Tables 1.2 and 1.3 in 'Social benefits assistance in cash' in 2003-04. Released 26/07/2018

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[114.5 KB]

Equivalised private income quintiles

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Equivalised disposable income quintiles

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Equivalised final income quintiles

Gross household income quintiles

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Net worth quintiles

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Contribution of government pensions and allowances to gross household income

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Main source of gross household income

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Tenure and landlord type

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Age of reference person

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All data cubes

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Previous catalogue number

This release previously used catalogue number 6537.0.

Methodology

Government Benefits, Taxes and Household Income, Australia methodology, 2015-16 financial year

C Feedback